Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	**)**
	)
National Exchange Carrier Association, Inc.	**)**
	)
2016 Further Modification of Average Schedule	**)**
Universal Service Support Formula	**)**
	)
High-Cost Universal Service Support	**)** WC Docket No. 05-337
	)

ORDER

Adopted: June 17, 2016   **Released: June 17, 2016**

By the Deputy Chief, Telecommunications Access Policy Division, Wireline Competition Bureau:

I.   INTRODUCTION

1.   In this order, the Wireline Competition Bureau (Bureau) approves modifications proposed by the National Exchange Carrier Association (NECA) to the formula used to calculate universal service high-cost loop support (HCLS).[1]

II.   BACKGROUND

2.   Pursuant to Part 54 of the Commission's rules, HCLS, also known as the loop expense adjustment, provides universal service support to carriers with high loop costs based on the extent that an individual company's cost per loop (CPL) exceeds the national average cost per loop (NACPL).[2] Because average schedule companies are not required to perform company-specific cost studies – the basis upon which a carrier's expense adjustment is calculated – the Commission has permitted expense adjustments for average schedule companies to be calculated pursuant to a formula developed by NECA and approved annually by the Bureau.[3] This formula is developed by NECA using data from a sample group of average schedule carriers and similarly-situated companies that file cost data (cost companies) in addition to data (access line and exchange information) obtained from the entire population of average schedule carriers; once approved, the formula is used to determine support amounts for all average schedule carriers.

---

[1] *See* 47 CFR § 69.606.

[2] *See* 47 CFR Part 54, Subpart M.

[3] *See National Exchange Carrier Association, Inc. Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas*, ASD 98-96, Order, 15 FCC Rcd 1819, 1819-20, para. 2 (1999). Average schedule companies have been permitted by the Commission to estimate their access settlements and universal service support through the use of average schedules to avoid company-specific cost studies. *See*, *e.g.*, *ALLTEL Corp. v. FCC*, 838 F.2d 551, 553 (D.C. Cir. 1988).

3.   The current HCLS formula for average schedule carriers was adopted in October 2015.[4] In March 2016, the Commission adopted a Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking which includes a new rate of return to be phased over a six year period, beginning July 1, 2016.

4.   On May 13, 2016, NECA filed proposed modifications to the current HCLS universal service formula for average schedule companies to reflect the decreased rate of return and requested that they take effect on July 1, 2016, and remain in effect through December 31, 2016.[5] On May 19, 2016, the Bureau issued a public notice seeking comment on NECA's proposed formula.[6] No comments were received.

III.   DISCUSSION

5.   Consistent with prior years, NECA proposes calculating HCLS payments for July 1-December 31, 2016 for average schedule companies based on the relationship of CPL data of sample companies to values representing the number of loops per exchange (CPL calculations).[7] To estimate current year costs, NECA applies forecasted growth factors to data collected from sample average schedule carriers one and two years prior to the current year. NECA then applies cost allocation factors—developed from the cost studies of similarly-situated cost companies—to the account balances of each sample average schedule company to estimate a CPL for each of the sample companies, and uses regression analyses to predict CPLs for all average schedule carriers. Each average schedule company's derived CPL is then used to calculate the HCLS support amount consistent with section 54.1310 of the Commission's rules, as revised in 2014.[8] The only change from past filings is that the rate of return used for this May filing is 11 percent instead of 11.25 percent. The current HCLS formula previously approved by the Bureau on October 23, 2015 is expected to provide $10.81 million in payments to carriers serving 194 average schedule study areas.[9] NECA's proposed formula for July 1, 2016 projects $10.44 million in

---

[4] *See* National Exchange Carrier Association, Inc.; 2016 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support, WC Docket No. 05-337, Order, 30 FCC Rcd 11571 (WCB 2015) (*2016 Order*).

[5] *See* 2016 NECA Further Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed May. 13, 2016) (NECA 2016 Modified Filing). The modifications proposed by NECA update the formula adopted by the Commission in October 2015.

[6] *See* Comment Sought on the 2016 Further Modification of Average Schedule Company Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337, Public Notice, DA 16-562 (WCB 2016).

[7] *See* NECA May 2016 Filing at 1-3; *see also, e.g., 2016 Order,* 30 FCC Rcd at 11573, para. 5; National Exchange Carrier Association, Inc.; 2015 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support, WC Docket No. 05-337, Order, 29 FCC Rcd 14952, 14954, para. 4 (WCB 2014) (*2015 Order*); National Exchange Carrier Association, Inc.; 2014 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support, WC Docket No. 05-337, Order, 28 FCC Rcd 16885, 16887, para. 4 (WCB 2013) (*2014 Order*); National Exchange Carrier Association, Inc.; 2013 Modification of Average Schedule Universal Service Support Formula; High-Cost Universal Service Support, WC Docket No. 05-337, Order, 27 FCC Rcd 15178, 15180, para. 6 (WCB 2012) (*2013 Order*); National Exchange Carrier Association, Inc. and Universal Service Administrative Company; 2012 Modification of Average Schedule Universal Service Support Formulas; High-Cost Universal Service Support, WC Docket No. 05-337, Order, 27 FCC Rcd 133, 135, para. 6 (WCB 2012) (*2012 Order*).

[8] *See* NECA 2016 Filing at 1-27.

[9] We note that the current amount of support expected to be paid for 2016 – $10.81 million – is less than the amount that was projected when NECA submitted its original average schedule formula for 2016. *See* 2016 NECA Modification of the Average Schedule Universal Service High-Cost Loop Support Formula, WC Docket No. 05-337 (filed Aug. 21, 2015). At that time, NECA estimated that the CPL formula would result in total payments of $11.3 million for 2016. *See id*. at 1. To ensure that total disbursed HCLS remains under the HCLS indexed cap, however, payments to all cost companies and average schedule companies were reduced. *See* NECA 2016 Filing at 1.

payments to carriers serving 191 average schedule study areas, a decrease of 3.4 percent which is due to the decrease from 11.25 percent to 11.0 percent in the prescribed rate of return. On average, the CPL decreased by 3.4 percent.[10]

6. We find that NECA's results and CPL calculations appear to be accurate and complete, and the proposed HCLS formula should reasonably approximate the CPL of the sample average schedule companies, and thereby allocate funds appropriately to average schedule companies.[11] Therefore, we approve the HCLS formula as provided in NECA's May 13, 2016 submission.

IV.   ORDERING CLAUSE

7. Accordingly, IT IS ORDERED, pursuant to sections 0.91 and 0.291 of the Commission's rules, 47 CFR §§ 0.91, 0.291, that the average schedule cost per loop formula proposed by the National Exchange Carrier Association, Inc. on May 13, 2016 for high-cost loop support IS ADOPTED, as described herein, effective as of July 1, 2016.

FEDERAL COMMUNICATIONS COMMISSION

Alexander A. Minard
Deputy Chief
Telecommunications Access Policy Division
Wireline Competition Bureau

---

[10] *See* NECA May 13, 2016 Filing at 1. For 2014, 2015, and 2016, approved high-cost loop average schedule formulas were estimated to result in total payments of $11.2 million, $10.3 million and 11.3 million, respectively. *See 2014 Order,* 28 FCC Rcd at 16886, para. 4 n.10; *2015 Order,* 29 FCC Rcd at 14952, para. 4 n.10, *2016 Order*, 30 FCC Rcd at 11571, para. 5 n. 11.

[11] *See, e.g., 2013 Order*, 27 FCC Rcd at 15180, para. 7; *2014 Order,* 28 FCC Rcd at 16886, para. 4; *2015 Order,* 29 FCC Rcd at 14952, para. 5. *2016 Order*, 30 FCC Rcd at 11571, para. 6.